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Michelle Steel: Want prosperity? Lower state taxes

By MICHELLE STEEL / For the Register

Contrary to the newly popular notion that California is on the rebound, the state's business-tax climate continues to be one of the worst in the nation. California's tax policies are making us less competitive with other states and hurting our economy. Other states have made significant reforms to improve their tax climates. We must do the same and reduce the tax burden on Californians.

According to the nonpartisan Tax Foundation's 2014 Business Tax Climate Index, California ranks 48 among the states for hospitality to business and economic growth. Our state has remained in that position since 2012 because of its "complex, non-neutral taxes with comparatively high rates."



The Index compares the 50 states by more than 100 different variables in five areas of taxation: major business taxes, individual income taxes, sales taxes, unemployment insurance taxes and property taxes. The results are added to create an overall ranking for each state.

Unlike other economic indexes that include education policy, crime rates or health care costs to determine state rankings for freedom or economic opportunity, the Business Tax Climate Index focuses solely on tax policy. The authors hold that this is because "every component of the index is subject to immediate change by state lawmakers." While it may take decades to change education policy and test the results, legislators can act immediately to simplify the tax code and enact lower and flatter tax rates to improve the state's tax climate.

Indiana, for example, was able to jump into the Index's top 10 this year because of its work to phase down its corporate and personal income tax rates, and by eliminating the state inheritance tax. Minnesota, by contrast, dropped two spots since last year because of an income-tax hike on earners above \$150,000 that – like California's Proposition 30 – was retroactive to the beginning of the year.

But California hasn't moved. Our state has been firmly planted near the bottom of the list year after year because our complex and high taxes make doing business in this state less desirable and, therefore, less competitive with other states.

The one bright spot for the Golden State is property taxation, and even there we're in the double digits at 14th place. If there is any doubt about the benefits of Proposition 13, the state's landmark cap on property taxes, this report should erase it.

Even as municipalities raise local parcel taxes, the statewide average tax rate remains relatively low, even while generating considerable revenue. That's because Proposition 13 protects California property owners from skyrocketing rates and provides certainty and consistency for homeowners, businesses and state coffers.

But proposals to do away with these protections for commercial property and to make it easier for local governments to raise parcel taxes continue to pose a grave threat to our business tax climate. The authors cite academic findings and empirical evidence to show that "property taxes are a significant factor in business location decisions." One study finds that a 1 percent increase in property tax reduces employment growth by 2.44 percent.

Instead of working to rid our state of the positive elements in our tax code, lawmakers would do well to apply the principles that work so well in Proposition 13 to the rest of the system. Low, broad-based tax rates provide fairness and consistency both for individuals and for businesses. And they open the door to economic growth.

As the authors also point out, Gov. Chris Christie of New Jersey – ranked 49 – has vowed to keep his state from the bottom of the list, and Gov. Andrew Cuomo of last-place New York recently formed a tax-relief commission to improve the state's tax climate. These governors seem to have caught on to something that California's lawmakers would do well to imitate.

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